

REQUIRES MONITORING  
OR STAFF ACTION

**COMMISSION DIRECTIVE**

ADMINISTRATIVE MATTERS	<input type="checkbox"/>	DATE	<u>June 15, 2005</u>
MOTOR CARRIER MATTERS	<input type="checkbox"/>	DOCKET NO.	<u>2004-357-WS - - -</u>
UTILITIES MATTERS	<input checked="" type="checkbox"/>		<u></u>

**SUBJECT:**

DOCKET NO. 2004-357-WS– Carolina Water Service, Inc. – Application for Adjustment of Rates and Charges and Modification of Certain Terms and Conditions for the Provision of Water and Sewer Service. HEARING HELD: May 4, 2005. This matter is ready for Final Disposition.

**COMMISSION ACTION:**

This motion is in 3 parts:

**Part 1: As to Return on Equity and Cost of Capital**

I note that the Commission heard the following testimony as to an appropriate rate of return for Carolina Water Service:

1. Company witness Pauline Ahern recommended a **return on equity** of 11.4% to 11.5% as appropriate for Carolina Water Service, Inc. Included in her recommendation was a 0.5% size adjustment. Her recommended **cost of capital** was 8.96% to 9.00%.
2. Dr. Ben Johnson, the witness for the Office of Regulatory Staff (ORS), recommended a **return on equity** of 9.5% to 11.1% as appropriate for CWS. Included in Dr. Johnson's recommendation is a 0.6% size adjustment and a 0.4% stock issuance adjustment.
3. Although Dr. Johnson did not calculate a cost of capital, he did agree with witness Ahern on the appropriate capital structure and the embedded cost of debt. The resulting cost of capital based on Dr. Johnson's recommended **return on equity** would be 8.18% to 8.84%.

I move that the Commission find as follows:

That the Commission adopt Dr. Johnson's testimony subject to the following conditions:

1. That evidence in the record provides support that a size adjustment is appropriate.
2. However, evidence in the record indicates a stock issuance adjustment is inappropriate because Carolina Water Service has not issued stock in the recent past and has no plans to issue stock in the near future. Therefore, I move that the Commission remove the 0.4% stock issuance adjustment from Dr. Johnson's recommendation, which results in a return on equity of 9.1% to 10.7%. The resulting cost of capital is 8.02% to 8.67%.

3. It is appropriate for the Commission to allow a one percent range for return on equity, and I therefore move that the Commission find a return on equity of 9.1% to 10.1% as appropriate for Carolina Water Service. The resulting cost of capital is 8.02% to 8.43%.
4. Further, I move that the Commission set rates at a 9.1% return on equity and a 8.02% cost of capital.

I SO MOVE.

PRESIDING Mitchell

Session: Regular

MOTION YES NO OTHER

Time of Session 2:30 p.m.

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## Part 2: As to Accounting Issues and Rates.

I move that the Commission accept the ORS Audit Report (Revised), including all accounting adjustments, with the following exception:

That the Commission eliminate the Customer Growth computation included in Income for Return, since Customer Growth has been included in the calculation of revenue under proposed rates and charges.

The Return on Equity of 9.1% produces additional gross annual revenues of \$1,146,000. I move that the water rates and charges as requested by the Company be approved which results in an increase in an average residential monthly bill, based on 6,000 gallons monthly usage, from \$29.44 to \$30.17, or an increase of \$.73, or 2.4% per month.

I move that a sewer revenue increase of \$980,765 be approved which results in:

1. a monthly residential sewer increase from \$30.33 to \$36.46, or an increase of \$6.13, or approximately 20.2%, per month,
2. a monthly mobile home sewer increase from \$21.64 to \$26.20, or an increase of \$4.56, or 21.1%, per month,
3. and a monthly "collection only" sewer rate increase from \$19.38 to \$23.47, or an increase of \$4.09, or 21.1%, per month.

Mr. Chairman, I have a complete schedule of recommended rates and charges as requested by the Company, as proposed by ORS, and as recommended to the Commission for approval, which I move that the Commission make available to all interested parties, at the conclusion of this meeting.

I SO MOVE.

PRESIDING	<u>Mitchell</u>				Session: Regular
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**Part 3: As to Quality of Service Issues, dealing with Customer Service, Water Quality, and Compliance with DHEC regulations.**

**A. Customer Service**

The Commission heard a great deal of testimony from the customers of Carolina Water Service in its night hearings regarding quality of customer service which they have received.

Almost without exception, the testimony has painted an unflattering picture of Carolina Water Service. While this testimony is anecdotal in nature, it is nevertheless a cause for concern. At a minimum, Carolina Water Service has a serious customer relations problem.

I am therefore, proposing that the Commission order the following measures to deal with the issue of quality of service.

1. that Carolina Water Service generate semesterly reports of its customer complaints, and provide them to ORS for review and such further action as appropriate. The reports should include, at a minimum, all information required by Public Service Commission Regulations 103-516, and 103-716, including the name and address of each complainant, the date and character of the complaint, and the adjustment or disposal made thereof.
2. That Carolina Water Service notify each customer, through its monthly bills, of the complaint procedures, and provide its customers with the toll-free telephone number for the Office of Regulatory Staff, and
3. that Carolina Water Service notify any customer making a complaint that remains unresolved after seven days, that the utility is under the jurisdiction of the Commission and the customer may contact ORS directly regarding their complaint, and that in providing such notice, that Carolina Water Service furnish the complaining customer with ORS's toll free telephone number and mailing address, and
4. That the Commission specifically note that if Carolina Water Services' customer complaint records reveal a problem, there are several remedies available to ORS and the public including petitions for sanctions and penalties, or even a request for a review and reduction of the company's rates.
5. I further move, that Carolina Water Service's motion to strike certain testimony offered at the night hearings be denied, on the basis that such evidence was relevant to these proceedings,

I SO MOVE:

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B. Water Quality.

A number of Carolina Water Service's customers complained of poor water quality: However, there is no testing data in the record which allows us to make findings regarding the odor, taste, or turbidity of Carolina Water Service's water in connection with this rate hearing.

The customer complaints regarding water quality are a cause for concern; people are entitled to get what they pay for, and therefore, I move that the Commission take the following measures:

1. Request ORS to develop tests for compliance with Public Service Commission Regulation 103-770 and other applicable statutes and regulations which require water to be potable, and insofar as practicable, free from objectionable odor, taste, color and turbidity, and
2. That ORS conduct such tests on the water produced by the facilities subject to this petition within the 12 months following this order, in such frequency as it deems necessary to ascertain compliance, so that ORS and this Commission may take such additional action, if any, that they deem necessary based on the results of these tests.

I SO MOVE

PRESIDING Mitchell

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C. DHEC Compliance.

There is testimony in the record that Carolina Water Service has been fined by DHEC on several occasions, but there is no record before the Commission explaining the specific nature of these violations or the amount of the fines.

Carolina Water Service has taken the position that it was not obligated to report these violations – the nature of which are still unknown – to the Commission or to ORS. We are troubled by this lack of information and believe that it is important that the ORS be timely provided with such data.

Therefore, I move that this Commission find that DHEC violations by their nature affect the service provided to Carolina Water Service's customers, and that the Commission order Carolina Water Service:

1. to file with ORS, in writing, a notice of any violation of DHEC rules or regulations as determined by DHEC, within 24 hours of the time of a finding that the violation occurred, and
2. to detail the steps to be taken to correct the violation if the violation is not corrected at time of its occurrence, and to also notify ORS in writing within 14 days after the violation has been corrected, and
3. within 60 days of the date of this Commission's order, to provide ORS such data regarding any violations of DHEC rules and regulations which have occurred over the previous 12 months.

This reporting system will allow ORS to make an informed determination about Carolina Water Systems' compliance with DHEC rules and regulations and take such action, if any, as it deems necessary in the future.

I SO MOVE.

PRESIDING Mitchell

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Midlands Utilities

I also move approval of the agreement presented to the Commission between Midlands Utilities, Inc and Carolina Water Service,

I SO MOVE

PRESIDING Mitchell

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